

Message Text

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PASS TREASURY

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TAGS: EFIN
SUBJECT: SOCIALIST PARTY ECONOMIC PROGRAM AND REACTIONS

1. SUMMARY:

WITH LESS THAN A MONTH TO GO BEFORE THE FIRST
ROUND OF THE LEGISLATIVE ELECTIONS, THE ECONOMIC
PROGRAMS OF THE LEFT REVEAL DEEP DIFFERENCES BETWEEN
THE PS AND THE PC AND A DRIVE BY THE GOVERNMENT
PARTIES TO CONVINCE THE ELECTORATE THAT THE ECONOMIC
PROGRAMS OF THE PS ALONE WOULD BE THE ECONOMIC RUIN
OF FRANCE, MUCH LESS THE MORE EXTREME PROGRAM OF THE
PC. THIS DEBATE HAS TAKEN ON NEW FORCE WITH THE
PUBLICATION YESTERDAY OF THE ECONOMIC PROPOSALS OF
THE PS IN THE FORMAT OF A SUPPLEMENTAL BUDGET FOR
1978 TO BE PASSED IN APRIL IF THE LEFT WINS. WHILE
THE NUMBERS ARE PLENTIFUL AND ARGUED VEHEMENTLY,
THEY REMAIN TOO FLUID TO ALLOW RIGOROUS ANALYSIS.
HOWEVER, THE FACT THAT THE PS HAS PUBLISHED ITS
PROGRAM IN CONSIDERABLE DETAIL IN ORDER TO TRY TO
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CONVINCE THE VOTER THAT IT IS BOTH BENEFICIAL AND
PRACTICAL INDICATES A RECOGNITION BY THE PS THAT
SUCH A DEBATE, PUSH BY THE GOVERNMENT PARTIES,
WAS INEVITABLE. THUS, ECONOMIC ISSUES HAVE COME
TO THE FOREFRONT IN THE CLOSING WEEKS OF THE CAMPAIGN;
AND VOTER REACTION TO THESE ISSUES COULD STILL BE AN
IMPORTANT ELEMENT IN AN ELECTION THAT PROMISES TO

BE VERY CLOSE. IN ANY CASE, IT CLEARLY IS THE INTENTION OF GOVERNMENT POLITICAL LEADERS TO FORCE A DEBATE ON ECONOMIC POLICY IN ORDER TO TRY TO SHOW THE LEFT BOTH DIVIDED AND IRRESPONSIBLE IN TERMS OF ECONOMIC POLICY AND ISSUES.
END SUMMARY

2. THE MAIN THRUST OF THE SOCIALIST PARTY ECONOMIC PROGRAM IS TO INCREASE THE LEVEL OF ECONOMIC ACTIVITY BY A LARGE INCREASE IN WAGES AND SOCIAL SECURITY TRANSFER PAYMENTS. THE SMIC (THE MINIMUM HOURLY WAGE) WOULD BE INCREASED BY 37 PERCENT TO FF 2,400 PER MONTH. WAGES UP TO FF 9,600 PER MONTH WOULD BE INCREASED BUT AT A SHARPLY DECREASING RATE, WHILE SALARIES ABOVE FF 12,000 PER MONTH WOULD BE FROZEN. THUS, SUBSTANTIAL INCREASES WOULD APPLY MAINLY TO THE FF 4,000 TO 4,500 PER MONTH RANGE WHICH REPORTEDLY REPRESENTS 80 TO 85 PERCENT OF WAGE EARNERS. THE SOCIALISTS ESTIMATE THAT THEIR WAGE PROPOSALS WOULD INCREASE TOTAL WAGES BY ABOUT 18 PERCENT.

3. THE SOCIALISTS COUNT ON THIS INCREASED PURCHASING POWER TO SET THE ECONOMY ROLLING AGAIN. SINCE THEY ASSUME EXCESS CAPACITY, THEY BELIEVE THAT PRODUCTION WILL EASILY EXPAND AND THAT NEW JOBS WILL BE CREATED.
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THUS, THE RATE OF GROWTH COULD BE PUSHED UP TO 4.9 PERCENT THIS YEAR AND TO 5.6 PERCENT IN 1979. REAL PURCHASING POWER WOULD INCREASE BY 6.4 PERCENT, LEADING TO A 5.5 PERCENT ANNUAL RATE OF CONSUMPTION, COMPARED TO ABOUT 3.1 PERCENT AT THE PRESENT TIME, ACCORDING TO THESE ESTIMATES. DURING THE FIRST NINE MONTHS 390,000 NEW JOBS WOULD BE CREATED, AND 500,000 MORE DURING 1979. INVESTMENT IS EXPECTED TO INCREASE AT A 5 PERCENT ANNUAL RATE IN RESPONSE TO THE HIGHER LEVEL OF DEMAND.

4. THE SOCIALIST PARTY HAS PUBLISHED A DETAILED ACCOUNTING OF THE COST OF ITS PROGRAM, WHICH FOR 1978 TAKES THE FORM OF A SUPPLEMENTARY BUDGET TO BE VOTED INTO LAW IN APRIL IF THE LEFT WINS THE ELECTIONS. THIS BUDGET ENVISIONS A DEFICIT OF FF 39.8 BILLION, INCLUDING THE FF 8.9 BILLION DEFICIT ALREADY ANNOUNCED BY THE PRESENT GOF. EXPENDITURES WOULD INCREASE BY ONLY FF 46.7 BILLION, INCLUDING FF 17.9 BILLION UNDER THE SOCIAL SECURITY BUDGET. THE SOCIALISTS WOULD FINANCE THIS DEFICIT BY DIRECT GOVERNMENT BORROWING OF FF 20 TO 25 BILLION.

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THE REMAINING DEFICIT WOULD BE FINANCED BY FINANCIAL INSTITUTIONS, PRESUMABLY THROUGH TREASURY BONDS PLACED IN THE MONEY MARKET.

5. AN INTERESTING FEATURE OF THE FINANCIAL PLAN IS THAT THE INCREASED LABOR COSTS FOR FIRMS WOULD BE PARTLY OFFSET BY A REDUCTION IN EMPLOYER SOCIAL SECURITY PAYMENTS OF FF 200 PER WORKER PER MONTH IN 1978. THOSE FIRMS WHICH WOULD EXPERIENCE FINANCIAL DIFFICULTIES IN SPITE OF THIS DEDUCTION WOULD BE GRANTED TEMPORARY AID. THE TOTAL OF THE FF 200 EXEMPTION PER WORKER IS ESTIMATED AT FF 27 BILLION, AND THIS LOSS OF TAX RECEIPTS WOULD BE FINANCED BY THE GOVERNMENT AS A PART OF ITS OVERALL BUDGET DEFICIT. IN SHORT, THE GOVERNMENT ITSELF WOULD PAY A PART OF THE PROPOSED INCREASE IN LABOR COSTS.

6. THE SOCIALISTS ARE KEENLY AWARE OF CRITICISMS OF THEIR PROPOSALS ON THE GROUNDS THAT THEY WOULD INCREASE INFLATION AND CAUSE A LARGE BALANCE OF PAYMENTS DEFICIT.
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THE SOCIALIST RESPONSE IS THAT BOTH WOULD BE KEPT WITHIN MANAGEABLE LIMITS, CERTAINLY AS COMPARED TO 1976. ASSUMING THAT IMPORTS WILL RISE BY ONLY TWO TIMES THE RATE OF ECONOMIC GROWTH, THE SOCIALISTS PREDICT A 9.8 PERCENT INCREASE IN IMPORTS IN 1978, AGAINST A 7.0 PERCENT INCREASE IN EXPORTS FOR A GOODS AND SERVICES DEFICIT OF FF 18 BILLION. THE SOCIALISTS INDICATE THE USE OF SELECTIVE IMPORT RESTRICTIONS WHICH WOULD REQUIRE THE UNDERSTANDING OF FRANCE'S TRADING PARTNERS, NOTABLY IN THE EC. AS FOR INFLATION, A TEMPORARY BLOCKAGE OF PRICES AND PROFITS FOR FOUR MONTHS TO BE FOLLOWED BY SELECTIVE PRICE CONTROLS IS THE SOCIALIST SOLUTION. THE OBJECTIVE WOULD BE A RATE OF INFLATION BELOW 10 PERCENT. ANY REFERENCE TO EXCHANGE CONTROL MEASURES, PREVIOUSLY FREQUENTLY AND FORCEFULLY MENTIONED IN THE CONTEXT OF THE LEFT'S ECONOMIC PROGRAMS, IS ABSENT FROM THE OUTLINE--PROBABLY IN ORDER TO AVOID RENEWED GOVERNMENT CRITICISM RECENTLY LEVELLED AT THE LEFT, ACCUSING THAT THEIR PROPOSALS WERE INSTRUMENTAL IN THE WEAKENING OF THE FRANC.

7. THE MAIN DIFFERENCES IN THE 1978 PROGRAMS BETWEEN THE COMMUNIST AND SOCIALIST PROPOSALS ARE THE FOLLOWING:

--THE SOCIALISTS WOULD HAVE THE GOVERNMENT CONTRIBUTE 200 FRANCS PER WORKER PER MONTH TO HELP ENTERPRISES FINANCE THE 37 PERCENT INCREASE IN THE MINIMUM WAGE. THE COMMUNISTS PUT THE FULL BURDEN ON ENTERPRISES.

--ADDITIONAL TAXES TO TAX THE RICH AMOUNT TO F 13 BILLION IN THE SOCIALIST PROPOSALS AS COMPARED WITH LIMITED OFFICIAL USE

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F 60 BILLION IN THE COMMUNIST PROPOSAL.

--THE COMMUNISTS PLAN TO INCREASE FAMILY ALLOWANCES BY 50 PERCENT, THE SOCIALISTS BY 25 PERCENT WITH ANOTHER 25 PERCENT HIKE LATER ON.

--THE COMMUNISTS PROPOSE TO RESTORE A REDUCTION IN CERTAIN SOCIAL INSURANCE BENEFITS PUT INTO EFFECT IN 1967. A PROVISION FOR THIS EXPENDITURE IS ABSENT FROM THE SOCIALIST PROGRAM. MITTERRAND COMMENTED THAT THEY WOULD DO THAT LATER ON.

--THERE IS NO PROVISION FOR INDEMNIFICATION FOR THE NATIONALIZATION OF ENTERPRISES IN THE SOCIALIST PROGRAM; MITTERRAND COMMENTED THAT NO SUCH EXPENSE WAS TO BE INCURRED IN 1978 SINCE THIS PROCESS WOULD TAKE SOME TIME.

8. THE PUBLICATION OF THE PS ECONOMIC PROGRAM HAS HIGHLIGHTED ANOTHER ISSUE IN THE RIFT BETWEEN THE PS AND THE PC. CHARLES FITERMAN, LEADING COMMUNIST ECONOMIST AND MEMBER OF THE CENTRAL COMMITTEE, PUBLICLY COMMENTED THAT THE SOCIALISTS' PROPOSALS MERELY REPRESENT A SUPPLEMENT TO THE GOVERNMENT BUDGET; THE PROPOSALS CONTINUE "TO PROTECT PRIVILEGES, PROFIT REAPED BY CAPITAL, AND THE RICH". THE PCF CONTINUES TO MAINTAIN THAT ONLY A MAXIMUM OF VOTES FOR THE COMMUNIST PARTY IN THE FIRST ROUND OF THE GENERAL ELECTIONS COULD BRING ABOUT THE CONDITIONS NECESSARY TO CHANGE THE SITUATION.

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9. ON THE GOVERNMENT SIDE, ROBERT BOULIN, MINISTER DELEGATE FOR ECONOMICS AND FINANCE, DESCRIBED THE SOCIALIST PROGRAM AS BEING FALSE IN ITS EVALUATIONS, DANGEROUS IN ITS INTENTIONS, AND PROVOKING THE RUIN OF THE FRENCH ECONOMY. HE SAID THAT IT SERIOUSLY

UNDERESTIMATES EXPENDITURES WHILE OVERESTIMATING RECEIPTS. IN HIS JUDGMENT, A MORE REALISTIC ESTIMATE FOR THE BUDGET DEFICIT UNDER SUCH A PROGRAM WOULD BE FF 78 BILLION IN 1978 AND AN EVEN HIGHER FIGURE IN 1979. FURTHERMORE, THE SOCIALISTS UNDERPLAY THE BURDEN THEY WOULD IMPOSE ON BUSINESSES. THE FF 27 BILLION THAT THE GOF WOULD ASSUME IN SUPPLEMENTARY SOCIAL CHARGES WOULD BE INSIGNIFICANT IN COMPARISON TO THE FF 132 BILLION INCREASE IN WAGES AND SOCIAL CHARGES AS WELL AS THE FF 5 BILLION IN SUPPLEMENTARY TAXES IMPOSED ON FIRMS ALREADY CRIPPLED BY A FREEZE ON PRICES. THE PS PROGRAM WOULD CAUSE THE "ASPHEXICATION OF ENTERPRISES" ACCORDING TO BOULIN.

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10. IN REPLYING TO GOF AND PC CRITICISMS, SOCIALIST LEADER FRANCOIS MITTERRAND STATED ON FRENCH TELEVISION THAT HE FEELS RATHER COMFORTABLE BEING ATTACKED FROM SUCH DIFFERENT QUARTERS, AND THIS IS PROOF OF THE JUSTIFICATION OF HIS PROGRAM AND THE REASONABLENESS OF THE CALCULATIONS.

11. COMMENT:

THE GOVERNMENT PARTIES, PARTICULARLY THE REPUBLICANS AND CENTERISTS, ARE MAKING THE PS PROGRAM THEIR MAIN THEME BOTH FOR ITS OWN EFFECT AND TO HIGHLIGHT THE DIFFERENCES AND DISAGREEMENTS BETWEEN THE PS AND THE PC. THE PUBLICATION OF THE PS PROGRAM IN THE FORM OF A "SUPPLEMENTARY BUDGET" FOR 1978 PROBABLY WAS DESIGNED TO MEET THIS ISSUE AND TO REASSURE VOTERS THAT THE PS HAS A PROGRAM THAT WOULD WORK DESPITE CRITICISMS FROM BOTH THE GOVERNMENT PARTIES AND THE COMMUNISTS. THE RPR HAS ATTACKED PS AND PC ECONOMIC POLICIES BUT ON A BROADER AND MORE IDEOLOGICAL FRONT, STRESSING COLLECTIVISM VERSUS LIBERTY. THIS IS PARTLY BECAUSE CHIRAC AND THE RPR WISH TO PUT SOME DISTANCE BETWEEN THEMSELVES AND THE LABEL OF "AUTORITY" WHICH THE LEFT HAS PINNED ON BARRE. THE RPR FAVORS ECONOMIC STIMULATION ALONG THE LINES OF THE PROGRAM TO SUSTAIN THE ECONOMY UNDERTAKEN IN SEPTEMBER 1975. WHILE NO ONE KNOWS WHAT EFFECT THE HEIGHTENED ECONOMIC DEBATE IS PRODUCING ON THE VOTERS, IT SEEMS CERTAIN THAT IT WILL CONTINUE TO BE A CENTRAL ISSUE IN THE LAST FOUR WEEKS OF THE CAMPAIGN, MAINLY BECAUSE GOVERNMENT LEADERS HAVE CHOSEN TO MAKE IT SO. THIS INDICATES THAT BARRE

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AND OTHER GOVERNMENT LEADERS BELIEVE THAT THEIR
CHANCES OF WINNING DEPEND IN PART ON HOW VOTERS
PERCEIVE THE PS ECONOMIC PROGRAM.
END COMMENT
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